

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Big Bay de Noc School District</b>	County <b>Delta</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/16/05</b>	Date Accountant Report Submitted to State: <b>12/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Escanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature <i>Anderson, Tackman &amp; Company P.C.</i>		Date <b>12/8/05</b>	

**BIG BAY DE NOC SCHOOL DISTRICT**  
**Cooks, Michigan**

**BASIC FINANCIAL STATEMENTS**

**Year Ended June 30, 2005**

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
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Kevin C. Pascoe, CPA  
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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Big Bay de Noc School District  
Cooks, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Big Bay de Noc School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Big Bay de Noc School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Big Bay de Noc School District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2005, on our consideration of the Big Bay de Noc School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 33 and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Bay de Noc School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

August 16, 2005

## BIG BAY DE NOC SCHOOL

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Big Bay de Noc School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Big Bay de Noc School's finances as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the Sinking/Construction Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

#### **Financial Section**

##### Basic Financial Statements

- District Wide Financial Statements

##### Fund Financial Statements

- Balance Sheet-Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Assets
- Notes to Financial Statements

##### Required Supplemental information

- Budgetary Comparison Schedule

##### Other Supplemental Information

- Combining Balance Sheet Non-major Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Non-major Governmental Funds

**The School District as a Whole**

The following summarizes the net assets at fiscal year ended June 30, 2004 and 2005:

**NET ASSETS SUMMARY**

<b>Assets</b>	<b><u>2004</u></b>	<b><u>2005</u></b>
Current Assets	\$ 1,097,546	\$1,233,879
Capital Assets	<u>\$ 2,339,957</u>	<u>\$2,379,875</u>
Total Assets	<u>\$ 3,437,503</u>	<u>\$3,613,754</u>
<b>Liabilities</b>		
Current Liabilities	\$ 236,512	\$ 252,565
Non-Current Liabilities	<u>\$ 129,405</u>	<u>\$ 107,871</u>
Total Liabilities	<u>\$ 365,917</u>	<u>\$ 360,436</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$ 2,320,207	\$2,379,875
Restricted for:		
Sinking Fund	\$ 365,412	\$ 454,739
Unrestricted	<u>\$ 385,967</u>	<u>\$ 418,704</u>
Total Net Assets	<u><u>\$ 3,071,586</u></u>	<u><u>\$3,253,318</u></u>

The above analysis focuses on the net assets. The School District's net assets were \$3,253,318 as of June 30, 2005. Capital assets, net of related debt, totaled \$2,379,875. The cost of the assets is \$4,544,321, and accumulated depreciation is \$2,164,446. This compares the original cost, less depreciation of the School district's capital assets, used to finance the acquisition of some of these assets. The restricted net assets are restricted for the Sinking Fund in the amount of \$454,739.

## **BIG BAY DE NOC SCHOOLS**

### **Management's Discussion and Analysis**

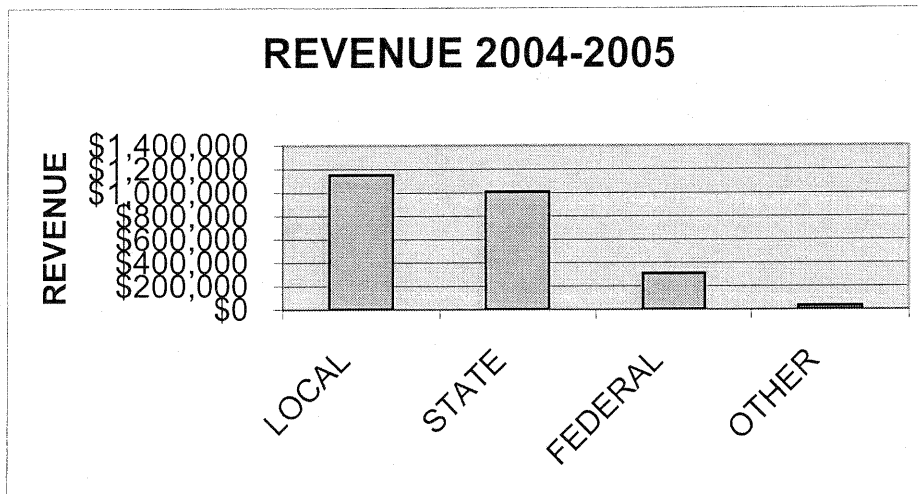
The results of this year's operations for Big Bay de Noc Schools as a whole are reported in the statement of activities, which show the changes in net assets for fiscal year 2005. Following the rules of GASB 34, a revenue and expense comparison to the previous year is shown.

<b>Program Revenues:</b>	<b>2004</b>	<b>2005</b>
Charges for Services	\$ 47,562	\$ 61,467
Operating Grants and Contributions	<u>339,362</u>	<u>364,620</u>
Total Program Revenue	<u>\$ 386,924</u>	<u>\$426,087</u>
<b>General Revenues:</b>		
Property taxes levied for general operations	\$ 1,058,572	\$1,151,536
Property taxes levied for Sinking Fund	277,117	266,576
State Aid Formula Grant	1,045,963	917,865
Other	<u>140,887</u>	<u>173,047</u>
Total General Revenues	\$ 2,522,539	\$2,509,024
Total Revenues	<u>\$2,909,463</u>	<u>\$2,935,111</u>
<b>Expenses:</b>		
Instruction	\$ 1,665,317	\$1,450,779
Support Services	1,073,142	920,569
Depreciation-Unallocated	190,086	182,332
Interest on Long-Term Debt	10,883	5,667
Athletics	78,700	73,208
Food Services	169,771	142,404
Other	<u>18,139</u>	<u>(21,580)</u>
Total Expenses	<u>\$ 3,206,038</u>	<u>\$2,753,379</u>
Increase/(Decrease) in net assets	(\$ 296,575)	\$ 181,732

As indicated above, net assets increased by \$181,732. This increase relates directly to the operations of the district during the year.

### Revenues

The following chart illustrates the District's sources of revenues:



### Sources of Revenues

Local sources of revenues total \$1,482,531 and includes revenues to the General Fund of \$1,151,536, School Lunch Fund of \$38,522, Athletic Fund of \$22,945, Memorial Fund of \$1,971, Playground fund of \$981, and Sinking Fund of \$266,576. Local sources of revenue totals 55% of the total revenue received. The General Fund receives its largest share of total revenue from local sources from taxes, which is tied to the high Non-Homestead taxable value. This also is tied to when we have the greatest cash flow for operations.

State sources of revenues total \$1,017,565 and include revenues to the General Fund of \$1,006,441. State sources of revenue totals 35% of the total revenue received.

Federal sources of revenues total \$375,172 and include revenues to the General Fund of \$308,334 and School Lunch fund of \$66,838. Federal sources of revenue totals 13% of the total revenue received.

Other sources of revenues total \$33,119 and include revenue to the General Fund of \$33,119. Other sources of revenue totals 1% of total revenue received.

**Property Taxes**

The most significant portion of funding to the District is through local property taxes. A significant portion of local revenue is provided from property taxes for the General Fund and the Sinking Fund. Property tax revenue totaled \$1,418,112. The General Fund local property taxes collected totaled \$1,151,536. The Sinking Fund local property taxes collected totaled \$266,576. The General Fund amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations. Due to the rising non-homestead taxable value our district has fallen under the Headlee Millage Reduction Fraction. In 2003-2004 the district did not receive \$48,601 of the local property taxes. On June 14, 2004 the voters approved up to 2 mills for a Headlee Override. The district levied 1.0301 of these mills in 2004. A voter approved 2.9 Sinking Fund mill levy on the taxable value of all properties, homestead and non-homestead, was levied in 2004-2005. This Sinking Fund millage was voted in on February 17, 1998 for ten years. The revenue generated from the Sinking fund has strict restrictions on how it can be spent. Section 1212 (1) authorizes the following three sinking fund uses:

- The purchase of real estate for school building sites.
- The Construction of school buildings; and
- The repair of school buildings.

Over the last 3 years taxable values have increased by 23.2% for homestead and non-homestead properties.

**Unrestricted State Aid Foundation Allowance**

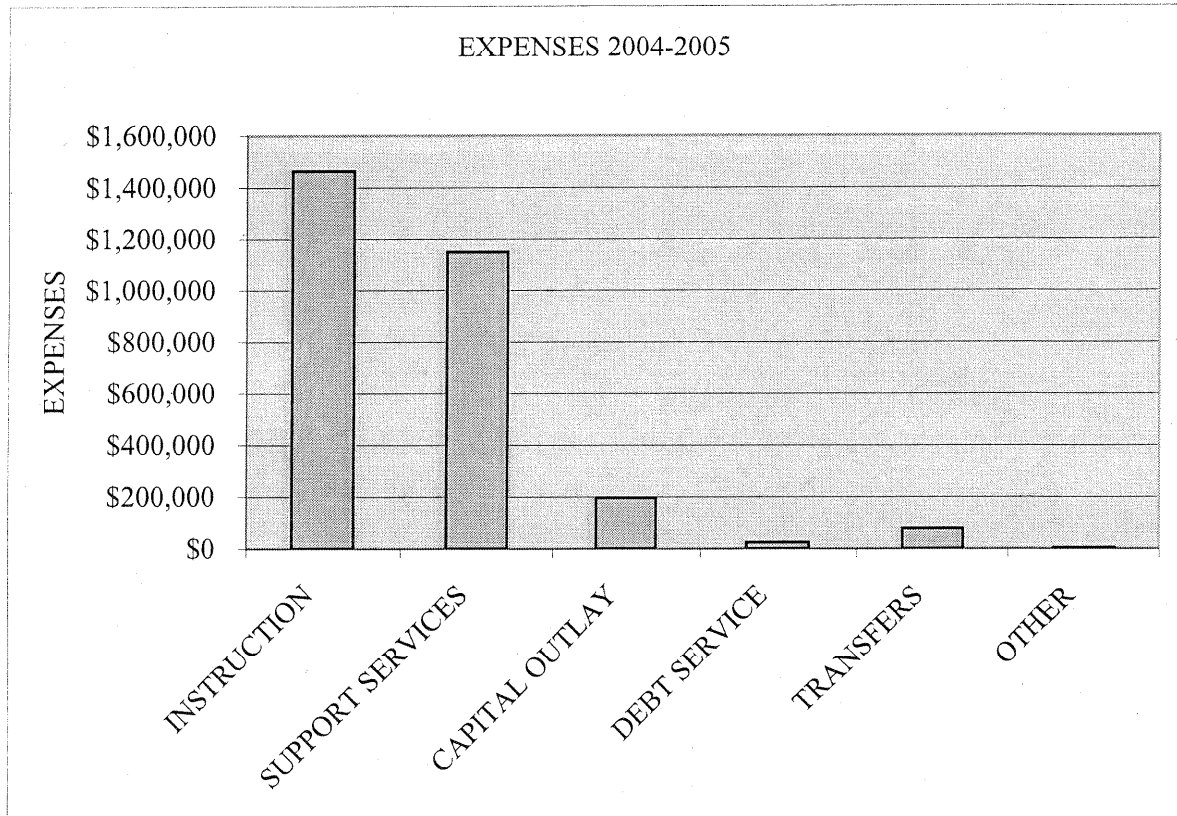
The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$6,779 per student for the 2004-2005 fiscal year. This is the second year that the state froze the District's foundation allowance. The number of students to be funded is calculated by student enrollment blended at 75% of current year September count and 25% of prior year February count. Due to declining enrollment this count is blended with the previous two years count and if this blend is greater, the district can use that count. The 3 year blend for Big Bay de Noc School total for fiscal year 2004-05 was 307.7. The overall funding is then reduced by the District's non-homestead tax levy based on 18 mills. The district is facing declining enrollment at an alarming rate and with no foundation increases we are not being funded at our full foundation allowance.

## BIG BAY DE NOC SCHOOL

### Management Discussion and Analysis

#### Expenses

The following chart illustrates the District's expenses:



Expenses include Instruction \$1,464,506, Support Services \$1,150,318, Capital Outlay \$196,770, Debt Service \$25,417, Transfers 78,842, and other \$3,900. School Lunch Fund and Athletic Fund expenses are included in Support Services.

## BIG BAY DE NOC SCHOOL

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### Management's Discussion and Analysis

#### Capital Assets and Debt Administration

##### Capital Assets

At June 30, 2004, the District had \$4,322,071 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

	2004	2005
Assets		
Land	\$ 500	\$ 500
Construction in Progress	-0-	183,802
Land Improvements	198,915	198,915
Buildings and Improvements	3,004,306	3,013,985
Vehicles	520,801	526,801
Machinery and Equipment	<u>597,549</u>	<u>620,318</u>
Total	<u>4,322,071</u>	<u>4,544,321</u>
Less Accumulated Depreciation	<u>1,982,114</u>	<u>2,164,446</u>
Net Total	<u>\$2,339,957</u>	<u>\$2,379,875</u>

This was an increase in capital assets of \$39,918 over last year and includes land improvements, building improvements, vehicles, and equipment. Depreciation expense for the year is \$182,332.

##### Debt

At the end of the year the District has no General Obligation Debt payable.

##### Economic Factors and Next Year's Budgets and Rates

The Board of Education and administration consider many factors when setting the School District's 2006 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2006 budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

## **BIG BAY DE NOC SCHOOL**

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### **Management's Discussion and Analysis**

#### **Original vs. Revised Budget**

The uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For Fiscal year 2004-2005, the budget was revised in October 2004, February 2005, and June 2005.

#### **General Fund Revenues**

Total revenues-June revision	\$2,498,346
Total revenues-original budget	\$2,447,623
Difference	\$ 50,723

#### **Increase in Revenue Budget**

The District's actual general fund revenues were \$1,084 more than the revised budget.

A significant revised budget adjustment for the fiscal year was:

- An increased amount of Impact Aid
- Received revenue from a timber sale

#### **General Fund Expenditures**

Total expenditures-June revision	\$2,438,239
Total expenditures-original budget	\$2,506,486
Difference	\$ 68,247

#### **Decrease in Expenditure Budget**

The District's actual general fund expenditures were \$8,256 less than the revised budget.

A significant revised budget adjustment for the fiscal year was:

- Another retirement that was not originally projected.
- Cut backs in travel and supplies.
- Changed health insurance in October to a PPO plan.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at Big Bay de Noc School, 8928 00.25 Road, Cooks, Michigan, 49817.

**BIG BAY DE NOC SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 1,028,828
Accounts Receivable	196,366
Due from Other Funds	300
Inventories	<u>8,385</u>
Total Current Assets	<u>1,233,879</u>
Non-Current Assets:	
Capital Assets - net	<u>2,379,875</u>
Total Assets	<u><u>\$ 3,613,754</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 84,745
Deferred Revenue	12,100
Accrued Payroll and Related Liabilities	125,405
Current Maturities of Long-Term Debt	<u>30,315</u>
Total Current Liabilities	<u>252,565</u>
Non-Current Liabilities:	
Bonds Payable	24,285
Compensated Absences Payable	53,901
Early Retirement Payable	60,000
Less Current Maturities Reported Above	<u>(30,315)</u>
Total Non-Current Liabilities	<u>107,871</u>
Total Liabilities	<u><u>\$ 360,436</u></u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	\$ 2,379,875
Restricted for:	
Sinking Fund	454,739
Unrestricted	<u>418,704</u>
Total Net Assets	<u><u>\$ 3,253,318</u></u>

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
FUNCTIONS/PROGRAMS:				
Instruction:				
Basic Programs	\$ 1,033,717	\$ -	\$ 2,522	\$ (1,031,195)
Added Needs	417,062	-	284,136	(132,926)
Total Instruction	1,450,779	-	286,658	(1,164,121)
Support Services:				
Pupil	39,055	-	-	(39,055)
School Improvement	4,058	-	-	(4,058)
Technology	64,062	-	-	(64,062)
Professional Development	13,821	-	-	(13,821)
Instructional Staff - Library	44,695	-	-	(44,695)
Board of Education	25,345	-	-	(25,345)
Executive Administration	122,526	-	-	(122,526)
Office of the Principal	103,795	-	-	(103,795)
Fiscal Services	68,538	-	-	(68,538)
Community Services	2,227	-	-	(2,227)
Operation and Maintenance	202,905	-	-	(202,905)
Pupil Transportation	195,204	-	-	(195,204)
Information Services	3,324	-	-	(3,324)
Central Services	31,014	-	-	(31,014)
Total Support Services	920,569	-	-	(920,569)
Other:				
Depreciation - Unallocated	182,332	-	-	(182,332)
Interest on Long-Term Debt	5,667	-	-	(5,667)
Athletics	73,208	22,945	-	(50,263)
Food Services	142,404	38,522	77,962	(25,920)
Other	(21,580)	-	-	21,580
Total Other	382,031	61,467	77,962	(242,602)
Total Governmental Activities	\$ 2,753,379	\$ 61,467	\$ 364,620	(2,327,292)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				1,151,536
Property Taxes Levied for Sinking Fund				266,576
State Aid Formula Grant				917,865
Schools and Roads Grant				102,701
Medicaid Reimbursement				3,750
Investment Earnings				26,725
State Settlement for Durant Suit				3,801
Miscellaneous Sources				36,070
Total General Revenues				2,509,024
CHANGE IN NET ASSETS				181,732
Net Assets, Beginning of Year				3,071,586
NET ASSETS, END OF YEAR				\$ 3,253,318

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2005

	General	Sinking/ Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Equivalents	\$ 450,264	\$ 536,192	\$ 42,372	\$ 1,028,828
Accounts Receivable	195,956	-	410	196,366
Due from Other Funds	300	-	42,095	42,395
Inventory	4,852	-	3,533	8,385
TOTAL ASSETS	<u>\$ 651,372</u>	<u>\$ 536,192</u>	<u>\$ 88,410</u>	<u>\$ 1,275,974</u>
LIABILITIES:				
Accounts Payable	\$ 3,262	\$ 81,453	\$ 30	\$ 84,745
Due to Other Funds	36,014	-	6,081	42,095
Accrued Payroll and Related Liabilities	125,405	-	-	125,405
Deferred Revenue	10,190	-	1,910	12,100
TOTAL LIABILITIES	<u>174,871</u>	<u>81,453</u>	<u>8,021</u>	<u>264,345</u>
FUND BALANCES:				
Fund Balance:				
Reserved for Inventory	4,852	-	3,533	8,385
Unreserved:				
Designated	113,901	-	-	113,901
Undesignated	357,748	454,739	-	812,487
Unreserved, Reported in Nonmajor:				
Special Revenue	-	-	50,440	50,440
Debt Service	-	-	410	410
Capital Projects	-	-	26,006	26,006
TOTAL FUND BALANCES	<u>476,501</u>	<u>454,739</u>	<u>80,389</u>	<u>1,011,629</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 651,372</u>	<u>\$ 536,192</u>	<u>\$ 88,410</u>	<u>\$ 1,275,974</u>

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

June 30, 2005

Total fund balances - governmental funds \$ 1,011,629

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported as  
assets in the governmental funds. The cost of the  
assets is \$4,544,321, and the accumulated  
depreciation is \$2,164,446.

2,379,875

Long-term liabilities, including bonds payable, are not  
due and payable in the current period and therefore  
are not reported as liabilities in the specific  
governmental funds. Long-term liabilities at year-end  
consist of the following:

Bonds payable	\$ 24,285	
Compensated absences	53,901	
Early retirement payable	60,000	(138,186)

Total net assets - governmental activities \$ 3,253,318

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

	<u>General</u>	<u>Sinking/ Construction</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Local Sources	\$ 1,151,536	\$ 266,576	\$ 64,419	\$ 1,482,531
State Sources	1,006,441	-	11,124	1,017,565
Federal Sources	308,334	-	66,838	375,172
Other	33,119	-	-	33,119
 TOTAL REVENUES	 2,499,430	 266,576	 142,381	 2,908,387
EXPENDITURES:				
Instruction:				
Basic Programs	1,047,444	-	-	1,047,444
Added Needs	417,062	-	-	417,062
 Total Instruction	 1,464,506	 -	 -	 1,464,506
Support Services:				
Pupil	39,055	-	215,612	254,667
School Improvement	4,058	-	-	4,058
Technology	64,062	-	-	64,062
Professional Development	13,821	-	-	13,821
Instructional Staff - Library	44,695	-	-	44,695
Board of Education	25,345	-	-	25,345
Executive Administration	122,526	-	-	122,526
Office of the Principal	120,295	-	-	120,295
Fiscal Services	68,409	-	-	68,409
Community Services	-	-	2,227	2,227
Operation and Maintenance	200,671	-	-	200,671
Pupil Transportation	195,204	-	-	195,204
Information Services	3,324	-	-	3,324
Central Services	31,014	-	-	31,014
 Total Support Services	 932,479	 -	 217,839	 1,150,318
Capital Outlay	3,681	189,800	3,289	196,770
Debt Service	25,417	-	-	25,417
Other	3,900	-	-	3,900
 TOTAL EXPENDITURES	 2,429,983	 189,800	 221,128	 2,840,911
EXCESS REVENUES (EXPENDITURES)	69,447	76,776	(78,747)	67,476
OTHER FINANCING SOURCES (USES):				
Interest Earned	13,511	12,551	662	26,724
Operating Transfers In	-	-	78,842	78,842
Operating Transfers Out	(78,842)	-	-	(78,842)
 TOTAL OTHER FINANCING SOURCES (USES)	 (65,331)	 12,551	 79,504	 26,724
NET CHANGES IN FUND BALANCES	4,116	89,327	757	94,200
Fund Balance, Beginning of Year	472,385	365,412	79,632	917,429
FUND BALANCE, END OF YEAR	\$ 476,501	\$ 454,739	\$ 80,389	\$ 1,011,629

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 94,200

The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$182,332) is less than capital outlays (\$222,250) for the period.

39,918

Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net assets.

19,750

In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.

27,864

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 181,732

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

June 30, 2005

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 9,645	\$ 17,234
LIABILITIES:		
Due to Other Funds	\$ 300	\$ -
Due to Student Groups	-	17,234
TOTAL LIABILITIES	\$ 300	\$ 17,234
NET ASSETS		
Reserved for Scholarships	\$ 9,345	

See accompanying notes to financial statements.

**BIG BAY DE NOC SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

For the Year Ended June 30, 2005

	Private- Purpose Trusts
ADDITIONS:	
Interest Earned	\$ 177
DEDUCTIONS:	
Scholarships Awarded	150
CHANGE IN NET ASSETS	27
Net Assets, Beginning of Year	9,318
NET ASSETS, END OF YEAR	\$ 9,345

See accompanying notes to financial statements.

## **BIG BAY DE NOC SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Big Bay de Noc School District (The School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

(1) Reporting Entity – The Board of Education, a seven member group constituting an ongoing entity, is the level of government which has governing responsibility over all activities related to public elementary and secondary school education within the jurisdiction of the District. In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39, "Determining whether Certain Organizations are Component Units". Based upon the criteria outlined in these statements, the financial statements of the Big Bay de Noc School District contain all the funds controlled by the District's Board of Education. There are no other entities which meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts:

- Invested in capital assets, net of related debt – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – This category consists of net assets with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the District's net assets resulting from the current year's activities. The government-wide financial statements do not include any fiduciary funds of the School District.

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The various funds are grouped in the fund financial statements in this report into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total of all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The School District reports the General Fund and the Sinking/Construction fund as major funds in accordance with the above criteria.

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The fund types of the School District are described below:

#### **Governmental Funds**

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Athletic, Memorial Fund and Playground Fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Sinking/ Construction Fund, Major Maintenance Fund and the Library Construction Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### **Fiduciary Funds**

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust fund maintained by the District is the Scholarship Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency fund maintained by the District is the Student Activities Fund.

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statement uses the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Inventory – The General Fund and the School Lunch Fund utilize the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(6) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

#### *Government-wide Statements*

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Assets. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	15 - 40 years
Land improvements	15 years
Vehicles	10 years
Equipment	5 – 15 years

#### *Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(7) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**BIG BAY DE NOC SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**NOTE B – CASH AND EQUIVALENTS**

The composition of cash and equivalents as reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets is presented below:

Government-wide Statement of		
Net Assets		\$ 1,028,828
Statement of Fiduciary Net Assets:		
Private Purpose Trusts	\$ 9,645	
Agency Funds	17,234	26,879
Total Cash and Equivalents		<u>\$ 1,055,707</u>
Composition of balances:		
Imprest Cash		\$ 250
Deposits:		
Checking Accounts		238,289
Savings Accounts		<u>817,168</u>
Total		<u>\$ 1,055,707</u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion no. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

*Interest Rate Risk.* The district carries no significant interest rate risk as all of its holding are in bank accounts or mutual funds with a high degree of liquidity.

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE B – CASH AND EQUIVALENTS (continued)**

*Credit Risk.* State law limits investments in commercial paper to the top two ratings issued by national recognized statistical rating organizations with a maximum maturity of 270 days. As of June 30, 2005, the District did not hold any commercial paper.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2005 the District held the following insured and uninsured amounts:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Insured	\$ 433,489	\$ 359,015
Uninsured	901,517	696,692
Total	<u>\$ 1,335,006</u>	<u>\$ 1,055,707</u>

*Concentration of Credit Risk.* The District has no significant concentration of credit risk due to the fact that its deposits are with area banks or with the MILAF mutual fund.

*Foreign Currency Risk.* The District has no foreign currency risk as it has no deposits or investments in foreign currency.

### **NOTE C – CAPITAL ASSETS**

A summary of the changes in governmental capital assets is as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2005</u>
Capital Assets Not Being Depreciated:				
Land	\$ 500	\$ -	\$ -	\$ 500
Construction in Progress	-	183,802	-	183,802
Capital Assets Being Depreciated:				
Land Improvements	198,915	-	-	198,915
Buildings and Improvements	3,004,306	9,679	-	3,013,985
Vehicles	520,801	6,000	-	526,801
Machinery and Equipment	597,549	22,769	-	620,318
Total	4,322,071	222,250	-	4,544,321
Accumulated Depreciation	1,982,114	182,332	-	2,164,446
Net Total	<u>\$ 2,339,957</u>	<u>\$ 39,918</u>	<u>\$ -</u>	<u>\$ 2,379,875</u>

Depreciation expense amounted to \$182,332 for the year ended June 30, 2005 and the entire amount was recorded as depreciation expense – unallocated in the Statement of Activities.

**BIG BAY DE NOC SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**NOTE D - ACCRUED FRINGE BENEFITS**

The District, as part of the various employment contracts with its personnel, allows for annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days – Various employees for the District are allowed to accumulate vacation days in the year when they are earned. The liability to the District for employee unused vacation has been calculated to be \$17,379 as of June 30, 2005.

Sick Pay – The District allows the accumulation of sick pay, however, sick pay is not vested and no payments of accumulated sick pay are required upon retirement. Accordingly, accumulated sick pay of \$295,533 as of June 30, 2005 is not recorded as a liability in the Statement of Net Assets.

Retirement Bonus – Teacher who have at least fifteen consecutive years of service in the District shall generally be entitled to a bonus of ten percent of their previous year's salary upon retirement.

Employee's other than teachers, qualifying for retirement as determined by Michigan Public School Employee Retirement System shall receive the greater of one days pay for each year worked or one-third of the amount of their accumulated sick leave.

The accumulated retirement bonus for qualified employees as reported in the Statement of Net Assets as of June 30, 2005 was \$36,522.

Early Retirement Incentive – During the year ended June 30, 2004 the District offered eligible employees an early retirement incentive. The District will pay each eligible individual \$30,000 and it will be paid in six annual installments of \$5,000 beginning January 1, 2004. Three employees accepted the early retirement incentive and received payments during the year ended June 30, 2005 totaling \$30,000 which included the retroactive payments due from January 1, 2004 and the current years payment on January 1, 2005. This leaves the District a recorded liability of \$60,000 in the Statement of Net Assets.

**NOTE E - DEFERRED REVENUE**

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenue represents unexpended funds received or receivable from state and federal project grants. Deferred revenue at June 30, 2005 consisted of the following:

General Fund:	
Golden Apple	\$ 10,190
Hot Lunch Fund:	
Inventory	<u>1,910</u>
Total	<u><u>\$ 12,100</u></u>

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE F – SHORT-TERM BORROWING**

During the year ended June 30, 2005, the School District borrowed \$400,000 for cash flow purposes. The following is a summary of the short-term debt for the year ending June 30, 2005:

	Balance 7/1/04	Additions	Deductions	Balance 6/30/05
Short-term debt	\$ -	\$ 400,000	\$ (400,000)	\$ -

### **NOTE G - GENERAL LONG-TERM DEBT**

The following is a summary of the change in general long-term debt for the year ending June 30, 2005:

	Durant Bonds	Notes Payable	Accrued Fringe Benefits	Total
Balance, July 1, 2004	\$ 24,285	\$ 19,750	\$ 141,765	\$ 185,800
Additions	-	-	-	-
Retirements	-	(19,750)	(27,864)	(47,614)
Balance, June 30, 2005	\$ 24,285	\$ -	\$ 113,901	\$ 138,186

At June 30, 2004 the School District's long-term debt consisted of the following:

	Total Due	Amounts Due Within One Year
<b>Durant Bonds Payable:</b>		
Due in annual installments of principal and interest at an interest rate of 4.76%. Payments are due annually on May 15th, until May 2013. The State of Michigan makes an annual appropriation which is the only revenue source for making the annual debt service payment. If the State of Michigan fails to make the annual appropriation, the District is under no obligation to make the payment.	\$ 24,285	\$ 1,840
<b>Accrued Expenses:</b>		
Retirement bonuses, accrued vacation and early retirement incentives.	\$ 113,901	\$ 37,286
Total	\$ 138,186	\$ 39,126

**BIG BAY DE NOC SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**NOTE G - GENERAL LONG-TERM DEBT (continued)**

Debt service requirements on long-term debt at June 30, 2005 are as follows:

Year Ending 6/30	Durant Bonds Payable		Early Retirement Incentive
	Principal	Interest	
2006	\$ 1,840	\$ 829	\$ 15,000
2007	1,927	743	15,000
2008	2,019	650	15,000
2009	2,116	554	15,000
2010	2,216	453	-
2011-2013	14,167	3,768	-
Total	<u>\$ 24,285</u>	<u>\$ 6,997</u>	<u>\$ 60,000</u>

**NOTE H – DESIGNATED FUND BALANCE**

Fund balance has been designated in the general fund for the year ended June 30, 2005 as follows:

Retirement benefits/compensated absences	<u>\$ 113,901</u>
--	-------------------

**NOTE I - PROPERTY TAXES**

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1, and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County and Schoolcraft County Delinquent Tax Revolving Funds, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District tax rates are 16.9699 mills per \$1,000 taxable value on non-homestead property for general operations and 2.900 mills per \$1,000 taxable value on both homestead and non-homestead property for the sinking fund.

**NOTE J - RETIREMENT PLAN**

Plan Description - The School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing, multiple-employer, statewide public employee retirement plan governed by the State of Michigan. The District's total annual payroll which was eligible compensation for MPERS for the year ended June 30, 2005 was \$1,224,226.

## **BIG BAY DE NOC SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

#### **NOTE J - RETIREMENT PLAN (continued)**

All non-student employees are eligible to participate in the MPSERS. Benefits vest after 10 years of service. Employees under the Basic Plan may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The System also provides survivor, death and disability benefits.

Benefits are paid monthly over the member's lifetime and are equal to 1.5% of the members' final average compensation multiplied by the member's years of credit service. The final average compensation period for Basic members is 60 consecutive months and for MIP members it is 36 consecutive months. Also under MPSERS, retirees have the option of continuing health, dental and vision coverage, with a portion of the cost being borne by them.

Contribution Required and Made - The District is required by state statute to contribute 14.87% of all eligible employees' salaries to the System. Employees who are members of the MIP (membership is required for employees hired after December 31, 1989) are required by statute to contribute an additional 4% of their salary to the Plan. Total School District contributions to the System for the years ended June 30, 2005, 2004, and 2003 were \$177,001, \$196,116, and \$185,165, respectively, and employee contributions were \$34,702, \$36,809, and \$35,776, respectively, which were equal to the required contributions for each year.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

MPSERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MPSERS at P.O. Box 30673, Lansing, MI 48909-8103, or by calling (517) 322-5103.

#### **NOTE K - STATE FOUNDATION REVENUE**

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation

# **BIG BAY DE NOC SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

### **NOTE K - STATE FOUNDATION REVENUE (continued)**

allowance was based on 25 percent of pupil membership count taken in February of 2004 and 75 percent of pupil membership count taken in September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note I which discusses property taxes.

### **NOTE L - BUDGETS AND BUDGETARY ACCOUNTING**

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

### **NOTE M - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The District purchases commercial insurance coverage to cover the risk of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the school. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**BIG BAY DE NOC SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**NOTE N – OTHER COMMITMENTS AND CONTINGENCIES**

The retiree health, dental and vision coverage under the Michigan Public School Employees Retirement System is currently funded on a pay-as-you-go basis. This funding policy is being challenged in the state courts. The outcome of this litigation and its potential effect on the School District are uncertain as of the date of these financial statements.

The District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2005.

**NOTE O – SINKING/CONSTRUCTION FUND**

In 1998, a ten year sinking fund millage of 2.9 mills was passed by the voters of the school district. The revenue generated from the millage is to be used for the purpose of purchasing, erecting, completing, remodeling or repairing facilities but is not to be used for routine custodial and janitorial services.

**NOTE P – INTERFUND BALANCES AND TRANSFERS**

Individual fund interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
School Lunch	\$ 31,536		
Athletic	4,388		
Memorial	90		
Subtotal	<u>36,014</u>	General Fund	<u>\$ 36,014</u>
Athletic	<u>23</u>	School Lunch	<u>23</u>
General Fund	<u>300</u>	Scholarship	<u>300</u>
Memorial	<u>6,058</u>	Library	<u>6,058</u>
Total	<u>\$ 42,395</u>	Total	<u>\$ 42,395</u>

**BIG BAY DE NOC SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**NOTE P – INTERFUND BALANCES AND TRANSFERS (continued)**

Interfund operating transfers for the year ended June 30, 2005 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 78,842
School Lunch Fund	27,285	-
Athletic Fund	<u>51,557</u>	<u>-</u>
Total	<u>\$ 78,842</u>	<u>\$ 78,842</u>

**BIG BAY DE NOC SCHOOL DISTRICT****BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 1,167,000	\$ 1,180,700	\$ 1,151,536	\$ (29,164)
State Sources	990,500	1,002,554	1,006,441	3,887
Federal Sources	283,973	308,332	308,334	2
Other	6,150	6,760	33,119	26,359
TOTAL REVENUES	2,447,623	2,498,346	2,499,430	1,084
EXPENDITURES:				
Instruction:				
Basic Programs	989,232	1,032,842	1,047,444	(14,602)
Added Needs	447,491	418,068	417,062	1,006
Total Instruction	1,436,723	1,450,910	1,464,506	(13,596)
Support Services:				
Pupil	35,511	38,875	39,055	(180)
School Improvement	4,000	4,088	4,058	30
Technology	75,000	68,073	64,062	4,011
Professional Development	14,000	14,000	13,821	179
Instructional Staff - Library	59,298	53,033	44,695	8,338
Board of Education	25,500	25,500	25,345	155
Executive Administration	179,411	120,597	122,526	(1,929)
Office of the Principal	123,624	120,374	120,295	79
Fiscal Services	70,106	68,221	68,409	(188)
Operation and Maintenance	189,406	200,777	200,671	106
Pupil Transportation	201,175	189,654	195,204	(5,550)
Information Services	29,604	24,892	3,324	21,568
Central Services	28,039	28,238	31,014	(2,776)
Total Support Services	1,034,674	956,322	932,479	23,843
Capital Outlay	5,788	1,607	3,681	(2,074)
Debt Service	25,500	25,500	25,417	83
Other	3,801	3,900	3,900	-
TOTAL EXPENDITURES	2,506,486	2,438,239	2,429,983	8,256
EXCESS REVENUES (EXPENDITURES)	(58,863)	60,107	69,447	9,340
OTHER FINANCING SOURCES (USES):				
Interest Earned	13,500	13,500	13,511	11
Operating Transfer Out	(80,000)	(78,842)	(78,842)	-
TOTAL OTHER FINANCING SOURCES (USES)	(66,500)	(65,342)	(65,331)	11
NET CHANGES IN FUND BALANCES	(125,363)	(5,235)	4,116	9,351
Fund Balance, Beginning of Year	472,328	472,328	472,385	-
FUND BALANCE, END OF YEAR	\$ 346,965	\$ 467,093	\$ 476,501	\$ 9,351

**BIG BAY DE NOC SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE  
SINKING/CONSTRUCTION**

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Local Sources	\$ 277,150	\$ 266,500	\$ 266,576	\$ 76
EXPENDITURES:				
Capital Outlay	15,000	109,000	189,800	(80,800)
EXCESS REVENUES (EXPENDITURES)	262,150	157,500	76,776	(80,724)
OTHER FINANCING SOURCES (USES):				
Interest Earned	-	12,500	12,551	51
NET CHANGES IN FUND BALANCES	262,150	170,000	89,327	(80,673)
Fund Balance, Beginning of Year	365,412	365,412	365,412	-
FUND BALANCE, END OF YEAR	<u>\$ 627,562</u>	<u>\$ 535,412</u>	<u>\$ 454,739</u>	<u>\$ (80,673)</u>

**BIG BAY DE NOC SCHOOL DISTRICT**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2005

	Nonmajor Special Revenue Funds				Nonmajor Debt Service Fund	Nonmajor Capital Project Funds			Total Nonmajor Governmental Funds
	School Lunch	Athletic	Memorial	Playground	Debt Retirement	Major Maintenance	Library Construction		
<b>ASSETS:</b>									
Cash and Equivalents	\$ 905	\$ 1,631	\$ 1,761	\$ 6,011	-	\$ 21,063	\$ 11,001	\$	42,372
Accounts Receivable	-	-	-	-	410	-	-		410
Due from Other Funds	31,536	4,411	6,148	-	-	-	-		42,095
Inventory	3,533	-	-	-	-	-	-		3,533
<b>TOTAL ASSETS</b>	<b>\$ 35,974</b>	<b>\$ 6,042</b>	<b>\$ 7,909</b>	<b>\$ 6,011</b>	<b>\$ 410</b>	<b>\$ 21,063</b>	<b>\$ 11,001</b>	<b>\$</b>	<b>88,410</b>
<b>LIABILITIES:</b>									
Accounts Payable	\$ 15	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$	30
Due to Other Funds	23	-	-	-	-	-	6,058		6,081
Deferred Revenue	1,910	-	-	-	-	-	-		1,910
<b>TOTAL LIABILITIES</b>	<b>1,948</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,058</b>		<b>8,021</b>
<b>FUND BALANCES</b>									
Reserved:									
Reserved for Inventory	3,533	-	-	-	-	-	-		3,533
Reserved for Debt Service	-	-	-	-	410	-	-		410
Unreserved:									
Undesignated	30,493	6,027	7,909	6,011	-	21,063	4,943		76,446
<b>TOTAL FUND BALANCES</b>	<b>34,026</b>	<b>6,027</b>	<b>7,909</b>	<b>6,011</b>	<b>410</b>	<b>21,063</b>	<b>4,943</b>		<b>80,389</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 35,974</b>	<b>\$ 6,042</b>	<b>\$ 7,909</b>	<b>\$ 6,011</b>	<b>\$ 410</b>	<b>\$ 21,063</b>	<b>\$ 11,001</b>	<b>\$</b>	<b>88,410</b>

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2005

	Nonmajor Special Revenue Funds				Nonmajor Debt Service Fund	Nonmajor Capital Project Funds			Total
	School Lunch	Athletic	Memorial	Playground	Debt Retirement	Major Maintenance	Library Construction	Nonmajor Governmental Funds	
REVENUES:									
Local Sources	\$ 38,522	\$ 22,945	\$ 1,686	\$ 981	\$ -	\$ -	\$ 285	\$ 64,419	
State Sources	11,124	-	-	-	-	-	-	11,124	
Federal Sources	66,838	-	-	-	-	-	-	66,838	
TOTAL REVENUES	116,484	22,945	1,686	981	-	-	285	142,381	
EXPENDITURES:									
Support Services - Pupil:									
Food Services	142,404	-	-	-	-	-	-	142,404	
Athletics	-	73,208	-	-	-	-	-	73,208	
Total Support Services - Pupil	142,404	73,208	-	-	-	-	-	215,612	
Community Services:									
Library & Playground	-	-	487	186	-	-	1,554	2,227	
Capital Outlay	-	-	-	-	-	-	3,289	3,289	
TOTAL EXPENDITURES	142,404	73,208	487	186	-	-	4,843	221,128	
EXCESS REVENUES (EXPENDITURES)	(25,920)	(50,263)	1,199	795	-	-	(4,558)	(78,747)	
OTHER FINANCING SOURCES:									
Interest Earned	16	21	177	80	-	295	73	662	
Operating Transfers In	27,285	51,557	-	-	-	-	-	78,842	
TOTAL OTHER FINANCING SOURCES	27,301	51,578	177	80	-	295	73	79,504	
NET CHANGE IN FUND BALANCES	1,381	1,315	1,376	875	-	295	(4,485)	757	
Fund Balances, Beginning of Year	32,645	4,712	6,533	5,136	410	20,768	9,428	79,632	
FUND BALANCES, END OF YEAR	\$ 34,026	\$ 6,027	\$ 7,909	\$ 6,011	\$ 410	\$ 21,063	\$ 4,943	\$ 80,389	

See accompanying notes to financial statements.



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Big Bay de Noc School District  
Cooks, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Big Bay de Noc School District, Cooks, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Big Bay de Noc School District's basic financial statements and have issued our report thereon dated August 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Big Bay de Noc School Districts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Big Bay de Noc School District, Cooks, Michigan, in a separate letter dated August 16, 2005.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Big Bay de Noc School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson, Tackman & Company P.L.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

August 16, 2005

**BIG BAY DE NOC SCHOOL DISTRICT**  
**Cooks, Michigan**

**REPORT TO MANAGEMENT**

**Year Ended June 30, 2005**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
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## **REPORT TO MANAGEMENT**

Board of Education  
Big Bay de Noc School District  
Cooks, Michigan

### **Audit Committee Communications**

We have audited the financial statements of Big Bay de Noc School District for the year ended June 30, 2005, and have issued our reports thereon dated August 16, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Big Bay de Noc School District. Management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management has the responsibility for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Big Bay de Noc School District are described in Note A of the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Big Bay de Noc School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Management Judgments and Accounting Estimates

Some accounting estimates are utilized in the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates. The most sensitive estimates affecting the financial statements were the useful lives of capital assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in relation to the financial statements taken as a whole.

### Significant Audit Adjustments

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

### Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Big Bay de Noc School District, or a determination of the type of auditor’s opinion to be expressed on those financial statements, our professional standards require the consulting accountant advise us so we may determine if the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

#### **Comments and Suggestions**

In planning and performing our audit of the financial statements of the Big Bay de Noc School District for the year ended June 30, 2005, we considered the School’s internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 16, 2005, on the financial statements of the Big Bay de Noc School District.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson, Tackman & Company, P.L.C.*  
Anderson, Tackman & Company, P.L.C.  
Certified Public Accountants

August 16, 2005

## **BIG BAY DE NOC SCHOOL DISTRICT**

### **COMMENTS AND RECOMMENDATIONS**

June 30, 2005

#### **TIMESHEET APPROVAL**

##### **Comment:**

We noted, during our testing of the payroll system, instances where payroll timesheets were not signed by the immediate supervisor or the superintendent.

##### **Recommendation:**

We recommend all timesheets be reviewed by a supervisor or the superintendent in order to maintain accuracy of time reporting and to verify the usage of paid leave and overtime hours.

##### **Management Response:**

Supervisors have been notified that timesheets must be signed before they turn them into the office. At that point the payroll clerk will check to see that they are signed. The payroll clerk will then give them to the superintendent who will review them for accuracy and sign that he has reviewed them. As a final check the finance director will review them to be sure they are all signed.

#### **SALES TAX**

##### **Comment:**

During our testing, we noted an instance where the District paid sales tax on the purchase of a refrigerator from a retailer.

##### **Recommendation:**

All vendor invoices should be reviewed prior to disbursement to assure that errors are corrected before payment is made. The District is a tax-exempt organization and should notify their vendors of information necessary to exclude sales tax from their purchases.

##### **Management Response:**

The sales tax was paid on an item that was picked up from a local distributor by an employee. To correct this all employees have been notified that as they purchase supplies from local distributors they need to complete paperwork for tax-exempt status. If sales tax is paid it will not be reimbursed to the employee.